To: Board of Directors

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Agenda Item: 2019 9% Low-Income Housing Tax Credit (LIHTC) Round Allocations Resolutions

In the 2019 9% LIHTC Round, a total of 18 applications were received requesting approximately 24,513,000 in annual 9% tax credits to develop a total of 1,032 rental units. Nine applications were received in the Public Housing Classification and nine in the General Classification.

Each application was reviewed and evaluated for conformance with the criteria defined in the 2018 Qualified Allocation Plan (QAP), the LIHTC Procedures, and the policy objectives and administrative requirements of CHFA.

- The number of 2019 9% LIHTCs available for allocation is approximately 9,858,716.
- The three highest-scoring applicants from the Public Housing Classification and the four highest-scoring applicants from the General Classification are recommended for awards totaling 10,281,282, requiring a forward allocation of 422,566 from the 2020 credit ceiling.
- These awards represent a mix of 51.4% of the award pool to the Public Housing Classification and 48.6% to the General Classification.
- The seven applications recommended for awards propose to develop a total of 439 rental units, including 348 affordable apartments and 91 market rate apartments. The developments will create 263 new units and 176 replacement units. Seventy-seven percent of the new apartments will contain two or more bedrooms.
- Development sources include a proposed commitment of approximately $39 million from DOH which will leverage approximately $97.6 million in LIHTC equity.

Development Name	Town	Points	Credits	Affordable Units	Total Units
Public Housing Classification					
Washington Village Phase Three 9%	Norwalk	70	2,182,796	37	50
Farnam Courts Phase II	New Haven	70	1,557,420	52	66
Westbrook Village II	Hartford	69	1,259,874	45	60
General Classification					
Rocky Neck Village	East Lyme	73	1,496,082	50	56
The Elms	West Hartford	72	959,207	53	67
Oak Tree Village	Griswold	70	1,698,914	57	72
River Breeze Commons	Shelton	69	1,126,989	54	68

Staff continues to review each development team's capacity to undertake the proposed development. Where there are concerns that a development team has numerous developments in process and may find it challenging to provide each development with the attention to detail that it deserves, conditions will be imposed on the award. Awardees will have until the end of 2019 to satisfy these concerns to CHFA's satisfaction in order to complete a Carry-over Allocation. The requirements for each development are outlined below.

Development	Requirements
Washington Village Phase III 9%	Approval and commitment of funding and tax-exempt bond authority for the 4% LIHTC portion of the hybrid transaction for this development.
Westbrook Village II	Closing of the financing for and start of construction of Westbrook Village I, previously awarded 9% LIHTCs in 2018.
Farnam Courts Phase II	Closing of the financing for and start of construction of Rockview Phase 2, previously awarded 9% LIHTCs in 2018, final closing with DOH for Mill River Crossing (fka Farnam Courts Phase I), and closing of the financing for and start of construction of HANH RAD Group 3.
Rocky Neck Village	CHFA acceptance of a cost certification and issuance of 8609s for Cherry Apartments, previously awarded 9% LIHTCs in 2016.
The Elms	CHFA acceptance of a cost certification and issuance of 8609s for 616 New Park, previously awarded 9% LIHTCs in 2016.
Oak Tree Village	Closing of the financing for and start of construction of Oxoboxo Lofts, previously awarded 9% LIHTCs in 2018.
River Breeze Commons	Completion of construction of and approval of satisfactory occupancy for Spruce Ridge, previously awarded 9% LIHTCs in 2018.

Pursuant to the QAP, each of the successful applications reflects the State of Connecticut's housing policy priorities including: Rental Affordability, Financial Efficiency and Sustainability, Local Impact, Opportunity Characteristics and Development Team Qualifications and Experience.

- All awardees will promote economic integration by developing a mix of apartments dedicated for very low-income families with incomes below 25% of the Area Median Income (AMI), and market rate apartments.
- All of the developments will include supportive services for residents identified as homeless, chronically homeless, imminently homeless or at risk for homelessness.
- Four developments are located in municipalities identified on the Affordable Housing Appeals List as having less than 10% assisted and deed-restricted housing.
- Three developments are Transit-Oriented Developments, located within one-half mile walking distance to an existing train or rapid transit bus station.
- Three developments include passive house design measures, four developments include renewable energy systems and all developments include a high performance building envelope.

Development	**Supportive Housing Units**	**Units <25% of AMI**	**Market Rate Units**	**Municipality with <10% Assisted and Deed Restricted Housing**	**Passive House Design Measures**	**Renewable Energy System**	**High Performance Building Envelope**
Washington Village Phase Three 9%	10	12	13	No	No	Yes	Yes
Westbrook Village II	12	12	15	No	Yes	Yes	Yes
Farnam Courts Phase II	14	16	14	No	No	No	Yes
Rocky Neck Village	6	13	6	Yes	Yes	Yes	Yes
The Elms	14	17	14	Yes	No	No	Yes
Oak Tree Village	15	15	15	Yes	Yes	Yes	Yes
River Breeze Commons	14	17	14	Yes	No	No	Yes

Resolutions, project summaries and underwriting information for each of the recommended developments are located in the corresponding Public Housing Classification and General Classification sections of this package.

PROGRAM BACKGROUND

The LIHTC Program plays a vital role nationally in the creation and preservation of affordable housing. It was established in 1986 to encourage the investment of private equity in the construction and rehabilitation of affordable rental housing. Through public/private partnership, individual and corporate investors provide equity, and in return they receive credits and other tax benefits to offset federal income tax liability. The equity raised allows units to be offered at below-market rates.

LIHTC equity serves as an excellent leverage tool for affordable housing production. The following chart illustrates the important part this equity plays in the financing structure of the proposed awardees.

Development	**Total Development Cost**	**Federal Tax Credit Equity**	**Proposed State Funding**[1]	**All Other Sources**
Washington Village Phase Three 9%	$27,185,730	$22,482,799	$1,035,400[2]	$3,667,531
Westbrook Village II	$20,183,966	$11,590,841	$6,000,000	$2,593,125
Farnam Courts Phase II	$34,459,006	$14,484,006	$6,325,000	$13,650,000[3]
Rocky Neck Village	$19,876,833	$13,464,738	$6,000,000	$412,095
The Elms	$17,366,955	$8,632,863	$4,401,734	$4,332,358
Oak Tree Village	$24,903,836	$16,139,683	$6,000,000	$2,764,153
River Breeze Commons	$17,976,576	$10,819,093	$5,800,000	$1,357,483

[1] Most funding is proposed to be from DOH. Farnam Courts Phase II includes $1,500,000 in DECD Brownfields funding. Assumes DOH funds are <u>not</u> Federal HOME funds.
[2] Washington Village will utilize a hybrid 4% / 9% LIHTC structure. The remainder of the $6,000,000 in DOH funding ($4,964,600) will be committed to the companion 4% transaction and leveraged with $9,700,000 in Choice Neighborhoods Implementation (CNI) grant funding.
[3] Farnum Courts will utilize Federal Move to Work funds.

In each state, credits are awarded by housing credit agencies based on housing needs and transparent procedures. Housing priorities and the method of allocation of the credits are identified in each state's QAP. The QAP establishes the guidelines and processes for the acceptance, scoring and competitive ranking of LIHTC applications for each funding round. The credits are also awarded pursuant to CHFA's LIHTC Procedures and the policy objectives and administrative requirements of CHFA.

Each state receives an annual allocation of 9% LIHTCs based on the result of a fixed per capita rate multiplied by the state's population. It is not uncommon for states to award the entire allocation and "forward allocate" additional 9% credits from the next year's allocation. Over the years, staff has researched the forward allocation policies of different states around the nation, and has found that each state awards its credits based on its individual circumstances. Some states forward allocate all of their credits, and some forward allocate none. When State and/or Federal funding was readily available, forward allocation was seen as a necessity to leverage that funding for the creation of much needed affordable housing and jobs in the State. Since 2000, CHFA has forward allocated credits in each round but one. Forward allocation has averaged between 20% - 50% of the allocation amount anticipated for the next year, and has been as much as 100% of the following year's allocation to take advantage of special Federal and State programs.

If states do not award their full allocation of credits in a given year, the balance carries over to the bottom of the next year's allocation. All current year credits and any returned credits must be awarded before the previous year's credits. If the credits are not awarded in the second year, they are forfeited and go into the National Pool. National Pool credits are redistributed proportionally to states that did award their full allocation, and help to reduce the amount of credits forward committed from the next year's allotment. CHFA has typically received a nominal amount of credits from the National Pool awards; in 2018, CHFA received 36,792 in additional 9% credit.

ROUND SUMMARY

After a public comment period, the 2018 QAP was approved by the Board of Directors at its meeting on June 29, 2018 and signed by the prior administration on August 7, 2018 for use in allocating the 2019 LIHTCs. CHFA held an informational session for the LIHTC Program on September 12, 2018. During this session, the QAP, LIHTC Procedures and the policy objectives and administrative requirements of CHFA were reviewed, including CHFA underwriting and technical services standards. Staff met with prospective applicants and answered questions up until the application deadline of October 31, 2018.

CHFA received 18 applications for the 2019 9% LIHTC Round. Nine applications were received that proposed rehabilitating or replacing public housing units; these applications make up the Public Housing Classification. Nine applications were received in the General Classification. Ten applications were received from non-profit organizations.

The QAP contains a section that details specific Application Criteria that each application must meet. CHFA staff performed an initial review of each application to confirm that these criteria were met. After this review, staff then performed a complete underwriting review of the applications. Development team members were evaluated for their ability to execute developments in a timely and high quality fashion. Clarification phone calls were made to each applicant to obtain clarity for seemingly missing, incomplete, or unclear information. Each applicant was given five business days to respond and provide additional detail. This

clarification period was the only time additional information could be submitted or changes could be made to the application.

Following the receipt and review of additional information submitted pursuant to the clarification calls, it was noted that one application did not meet threshold requirements and one application did not have a credible financing plan. These applications were removed from consideration.

A series of department meetings were held to gain consensus on common underwriting methodologies to employ for the round review. These meetings provided an opportunity to discuss specific proposal-related issues or unique circumstances to ensure that all reviews were consistent and provided a uniform approach. Once the underwriting evaluations were completed and the LIHTC amounts were finalized, each applicant was then rated and awarded points in accordance with priority characteristics as noted in the QAP. After the final scoring calculations were complete, each application underwent two separate individual peer reviews by team leaders to establish a quality control review for the round. The final scoring worksheets were reviewed with each applicant via a phone call. Applicants were given the total score for their individual applications, but were not given any indication of where their application ranked. Applicants were allowed to respond to the review and point out items that may have been missed or misinterpreted during the review, but they were not allowed to provide new information. The results were then finalized at the sole discretion of CHFA. The eligible applications have been ranked in order of their respective points.

The average score for the 16 eligible developments is 64 points with the highest application receiving 73 points and the lowest receiving 36 points. The individual category averages are as follows:

Rental Affordability average:	26 out of 35 points
Financial Efficiency & Sustainability average:	15 out of 27 points
Local Impact average:	8 out of 15 points
Opportunity Characteristics average:	6 out of 15 points
Qualifications & Experience average:	8 out of 11 points

Behind this memorandum you will find the following charts and maps for your reference:

- Full list of applications received for this round;
- 2019 LIHTC Scoring for all of the eligible developments, sorted by Classification and then by score;
- Location map for all applications and proposed awardees;
- Estimated Economic Impact Summary; and
- Project summaries and underwriting information for each of the applications.

LIHTC Procedures state that a waiver is required for any credit request that exceeds 20% of the 2019 LIHTC per capita ceiling (1,971,743), up to a hard cap limit of 15% higher than this calculated amount (2,267,505). Similarly, a waiver is required if the per unit credit request exceeds 27,500/qualified unit, up to a hard cap limit of 30,000. Requests for waivers of these two provisions are not uncommon among all applicants. The per unit credit limit is not applicable in applications proposing a hybrid 9% and 4% LIHTC financing structure. Washington Village Phase Three 9% was submitted with such a structure and does not require a waiver for credits per unit. The proposed awardees require the following waivers:

Development	Total Credits	Credits Per Unit
Washington Village Phase Three 9%	X	
Westbrook Village II		X
Farnam Courts Phase II		X
Rocky Neck Village		X
Oak Tree Village		X

There are many reasons waivers are being requested. Each development has included units targeted to lower-income households, as well as market-rate housing. All of the proposed awardees have included supportive housing units. Deeper income targeting limits the developments' ability to carry debt which creates a need for more tax credit equity. The developments also cite higher construction costs for a variety of reasons including the inclusion of energy efficiency measures in the design, prevailing wage rate requirements, and additional work required for environmental remediation.

The developments recommended for awards are projected to generate 608 jobs and $219.5 million in economic activity. These projections are based upon DECD analysis (REMI PI+Ver 1.6.7 State Model, Regional Economic Models, Inc. Amherst, MA). The Estimated Economic Impact summary chart can be found behind this memorandum.

POLICY IMPACTS

When changes are made to the threshold requirements or scoring incentives in the QAP, Developers will begin to include these new priorities in their proposals in order to maximize the point score. Due to the time it takes to ready a proposal for the 9% round, developments reflecting the new priorities may not be seen for a few years. QAP changes in recent years include incentives for family developments, passive house design, and development in areas of opportunity. The Opportunity Characteristics category was introduced in 2016 to encourage the development of non-age restricted family housing in areas with comparatively lower poverty rates, higher performing school systems, employment opportunities, and higher education opportunities. In the 2019 round, two of the eligible applicants did not qualify for points in this category because they were age-restricted. The remaining applicants sought between two and eight points in this category. All of the applicants' points in this category are as follows (awarded developments are shown in **bold)**:

Development	Municipality (* indicates an Area of Opportunity)	Below Average Poverty Rate	Performing Schools (2 points for score of 8-10, 1 point for score of 4-7)	Above Average Jobs to Population Ratio	Proximity to Community/ Technical College	Total Points Awarded
Washington Village Phase III 9%	**Norwalk**	**2**	**1**	**3**	**2**	**8**
Westbrook Village II	**Hartford**	**0**	**0**	**3**	**2**	**5**
Farnam Courts Phase II	**New Haven**	**0**	**0**	**3**	**2**	**5**

Development	Municipality (* indicates an Area of Opportunity)	Below Average Poverty Rate	Performing Schools (2 points for score of 8-10, 1 point for score of 4-7)	Above Average Jobs to Population Ratio	Proximity to Community/ Technical College	Total Points Awarded
Willow Creek Apartments Phase IV	Hartford	0	0	3	2	5
The Windward Apartments Phase II	Bridgeport	0	0	0	2	2
McCluggage Manor and Annex[3]	Griswold*	0	0	0	0	0
Valley Townhouses	New Haven	0	0	3	2	5
Veterans Terrace II	East Hartford	0	0	3	2	5
Rocky Neck Village	**East Lyme***	**2**	**2**	**0**	**2**	**6**
The Elms	**West Hartford***	**2**	**2**	**0**	**2**	**6**
Oak Tree Village	**Griswold***	**0**	**1**	**0**	**2**	**3**
River Breeze Commons	**Shelton***	**2**	**1**	**3**	**2**	**8**
Berkowitz Block	New Britain	0	0	0	2	2
The Edgerton	New London	0	0	3	2	5
Hill Central Phase I[3]	New Haven	0	0	0	0	0
MLK Blvd/Tyler Street Family Housing	New Haven	0	0	3	2	5

[3] Age-restricted development; not eligible for points in this category.

The 2016 QAP introduced point incentives for passive house design measures. Each subsequent year has seen applicants gain a better understanding of what this entails, and more proposals have included it. In the 2019 9% LIHTC Round, eight of the 16 eligible developments included passive house design measures. Ten developments proposed the use of renewable energy sources, and all developments included a high performance building envelope.

Significant points awarded for supportive housing continues to be particularly impactful with all but one applicant seeking points for offering supportive housing units. Due to the importance of service-enriched housing and the significant number of points at stake, CHFA partners with member agencies of the Interagency Council on Supportive Housing and Homelessness who provide expert review and feedback for each proposed supportive housing plan. This approach provides a consistent and uniform approach to the evaluation of each plan and is expected to provide high quality assurance reviews once each development is in operation.

The current QAP included changes to the definition of Transit-Oriented Development to mean developments within a half-mile walking distance of a train or bus rapid transit station. Five applications received points for this. This category also offers points for mixed-use development that contributes to the amenities of the neighborhood. Only one application received points for the inclusion of commercial space on the ground floor of the building.

The current QAP also introduced the ability for applicants to propose alternative financing structures that reduce the volume of 9% LIHTCs used, or reduce the need for other scarce

resources. One alternative is the use of separate, but simultaneous, financing plans that utilize both 9% LIHTCs and 4% LIHTCs with Tax-Exempt Bonds. The QAP reserved the right for CHFA to approve the use of an alternative financing structure based on demonstrated experience completing transactions using the structure, simultaneous financing of each portion of the development, ability to adhere to timelines, and a demonstration of cost savings, increased unit production and a reduction to scarce resources. This was piloted following the 2018 9% LIHTC Round when all awardees were invited to submit proposals using an alternative financing structure within 30 days of the award. The proposal for Washington Village Phase Two was accepted as the additional tax credit equity generated by the 4% portion saved $4.7 million in Federal Choice Neighborhoods Implementation grant funds for use in the third and final phase of the redevelopment. Both the 9% LIHTC and 4% LIHTC Tax-Exempt Bond transactions successfully closed in October 2018. The same financing structure has been proposed for Washington Village Phase Three; the additional tax credit equity will fill a $9.6 million gap in funding that would be created if the entire development was included in a 9% LIHTC transaction.

Awardees will be required to commit to including all of the details of the development that they received points for, including deep income targeting, supportive housing units, energy efficiency features, and proposed costs. If changes are made that would result in a reduction of points, LIHTC awards may be withdrawn.

CREDIT AVAILABLITY and NEXT STEPS

2019 Credit Ceiling

The calculation of the maximum credit ceiling each year is determined by multiplying Connecticut's population by a per capita rate which is provided by the IRS. The approximate 2019 LIHTC credit ceiling was calculated by multiplying the 2019 Connecticut population estimate provided by the U.S. Census Bureau of 3,572,665 by the 2019 per capita rate of $2.75625. This results in approximately 9,847,158 credits available for 2019. CHFA had 11,558 unallocated credits that were carried forward from 2018. The approximate credit ceiling for allocation is as follows:

2019 CREDIT CEILING	9,847,158
Plus Carried Forward Credit	11,558
2019 ROUND BALANCE	9,858,716
Award Recommendation	10,281,282
2019 CREDIT CEILING Remaining	- 422,566
2020 Forward Commitment Needed	422,566

Because CHFA will successfully award all of its 2019 credits, we will apply for and expect to receive additional credits from the National Pool that will reduce the amount of the forward commitment required from the 2020 credit ceiling.

2020 Application Round

Upon the Board of Directors approval to award the recommended transactions in the 2019 LIHTC Round, the estimated credit availability for next year's LIHTC Round will be approximately 9,424,592. The QAP states: "in order to provide predictability to the development community, each time the 9% LIHTC Round's awards are announced, the Authority will estimate and release the amount of Credits available for the following round."

2020 CREDIT CEILING (Estimated)	9,847,158
Minus 2018 Forward Commitment	- 422,566
2020 ROUND REMAINING BALANCE (Estimated)	9,424,592

A Board taskforce was formed and discussions are underway on the 2019 QAP and LIHTC Procedures that will be utilized for the 2020 9% Round. The Internal Revenue Code requires annual public input for the state's qualified allocation plan. It is anticipated that the 2019 QAP and draft LIHTC Procedures will be presented to the Board at its May meeting for authorization of a public hearing and public comment period.